

PAW PAW DISTRICT LIBRARY

Report on Audit of Financial Statements
For the Year Ended
December 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Paw Paw District Library	County Van Buren
Fiscal Year End December 31, 2006	Opinion Date February 1, 2007	Date Audit Report Submitted to State 3-29-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

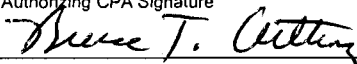
YES
N/A

☒ ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☐ ☒ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Cutting & Cutting, P.C.		Telephone Number (269) 657-4720	
Street Address 303 Paw Paw St., Suite 4		City Paw Paw	State MI
		Zip 49079	
Authorizing CPA Signature 		Printed Name Bruce T. Cutting	
		License Number 11466	

CUTTING & CUTTING, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CENTER BUILDING
303 PAW PAW STREET, SUITE 4
PAW PAW, MICHIGAN 49079-1434

WILLIAM A. CUTTING
BRUCE T. CUTTING

TELEPHONE
269-657-4720

February 1, 2007

INDEPENDENT AUDITOR'S REPORT

To the Paw Paw District Library Board
Paw Paw, Michigan

We have audited the accompanying financial statements of Paw Paw District Library as of December 31, 2006, and for the year then ended. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Library's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Paw Paw District Library, as of December 31, 2006, or the changes in its financial position for the year then ended.

Cutting & Cutting, P.C.

STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES - CASH BASIS
GENERAL FUND
PAW PAW DISTRICT LIBRARY
December 31

	<u>2006</u>	<u>2005</u>
Assets		
Cash and equivalents	\$ <u>689,840</u>	\$ <u>552,217</u>
Total current assets	689,840	552,217
Restricted assets	<u>2,500</u>	<u>2,500</u>
	\$ <u><u>692,340</u></u>	\$ <u><u>554,717</u></u>
Liabilities and Fund Balance		
Fund balance		
Reserved	\$ 502,500	\$ 302,500
Unreserved	<u>189,840</u>	<u>252,217</u>
Total fund balance	<u>692,340</u>	<u>554,717</u>
	\$ <u><u>692,340</u></u>	\$ <u><u>554,717</u></u>

STATEMENT OF CHANGES IN FUND BALANCES - CASH BASIS
Years ended December 31

	<u>2006</u>	<u>2005</u>
Revenues	\$ 678,177	\$ 615,187
Expenditures	<u>540,554</u>	<u>499,354</u>
Excess of revenues over expenditures	137,623	115,833
Beginning fund balance	<u>554,717</u>	<u>438,884</u>
Ending balance	\$ <u><u>692,340</u></u>	\$ <u><u>554,717</u></u>

See notes to financial statements.

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
PAW PAW DISTRICT LIBRARY
Year ended December 31

		<u>2006</u>		
	Amended Budget	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>2005</u>
Revenues				
Property taxes	\$ 560,200	\$ 554,823	\$ (5,377)	\$ 512,621
State aid	8,920	9,414	494	9,855
Revenue sharing		3,246	3,246	3,246
Photocopying	2,000	2,603	603	2,244
Penal fines	53,230	65,160	11,930	62,691
Fines	7,000	7,711	711	6,686
Interest	12,000	33,501	21,501	16,030
Donations	1,000	970	(30)	1,018
Miscellaneous	<u>650</u>	<u>749</u>	<u>98</u>	<u>796</u>
	\$ <u>645,000</u>	\$ <u>678,177</u>	\$ <u>33,176</u>	\$ <u>615,187</u>
Expenses				
Salaries, fringe benefits, and related items	\$ 381,000	\$ 372,357	\$ 8,643	\$ 341,234
Supplies	19,600	15,581	4,019	14,394
Professional and contracted services	23,000	9,131	13,869	16,243
Telephone and utilities	31,800	22,336	9,464	22,237
Books, tapes and magazines	68,050	55,837	12,213	49,252
Travel and seminars	12,000	4,948	7,052	8,793
Insurance	8,500	8,416	84	7,302
Repairs	27,000	19,517	7,483	17,514
Capital outlay	56,600	32,331	24,269	18,259
Special events		(1,194)	1,194	(471)
Miscellaneous	1,450	1,294	156	1,328
Election Contingency	<u>16,000</u>	<u> </u>	<u>16,000</u>	<u>3,269</u>
	\$ <u>645,000</u>	\$ <u>540,554</u>	\$ <u>104,446</u>	\$ <u>499,354</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
PAW PAW DISTRICT LIBRARY
December 31, 2006

Summary of significant accounting policies

The accompanying financial statements and budget information have been prepared using the cash basis of accounting.

A. Reporting Entity

During 1987 the electors voted to become a district library. The District conforms to the boundaries for the Paw Paw Public Schools, and includes a portion of the following townships: Almena, Antwerp, Lawrence, Paw Paw and Waverly. On August 11, 1987, at a special election, the electors voted to levy not more than one mill for twenty years. On June 13, 1994, the electors voted an additional .3 mill for library operations. In June, 1997 the electors voted an additional .5 mill for library operations. The Library's financial statements include the accounts of all library operations. The criteria for including organizations within the Library's reporting entity, as set forth in GASB No. 14, "The Financial Reporting Entity", is financial accountability.

B. Fund Accounting

The accounts of the Library are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund.

C. Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act. 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

<u>Deposits</u>	<u>Amount On Deposit</u>	<u>Carrying Value</u>
Insured	\$ 200,000	\$ 200,000
Not insured	495,995	492,240

Custodial credit risk is the risk that in the event of a bank failure, the library's deposits may not be returned to it. The library does not have a deposit policy for custodial credit risk. At year end, the library had \$495,995 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

D. Restricted assets contains the following amount:

Powless Memorial	\$ 2,500
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During 2005 (effective January 1, 2006) the Library Board added \$200,000 to their previously reserved fund balance for capital improvement purposes. The current reserved fund balance is now \$500,000. This figure plus the Powless Memorial equals the \$502,500 in reserved fund balance as shown in the financial statement.

E. Possible Property Purchase

Included in capital outlay this year (and in 2005) is a \$5,000 option payment to a local property owner. This payment secured the library's ability to purchase the property as a possible building site under certain terms. The purchase is dependent on several factors. The library is also considering another site being offered by a local municipality.

F. Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on the following December 1 and are due on February 14. Taxes levied by the Library are collected by various townships and periodically remitted to the Library. The 2006 tax rate levied was 1.5928 mills. Property taxes receivable at December 31, 2006 and 2005 approximated \$580,000 and \$541,000, respectively.

G. Budgets

Budgets are adopted on the cash basis and are amended from time to time.

H. Risks

The Library is subject to certain risks of property loss, liability and personal injury. The Library has purchased various policies from commercial insurance companies to cover these risks.

I. Change in Reporting Format

GASB 34 requires certain governmental units to change their reporting format to allow for recognition of physical assets, depreciation expense and certain other items. The Library has not adopted this format.

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February 1, 2007

Paw Paw District Library
Paw Paw, Michigan 49079

The audit work necessary to express an opinion on the financial statements of Paw Paw District Library included a review of the Library's accounting procedures and the related internal controls. As a result of this review we offer comments and recommendations for your consideration.

Internal Controls

There is not adequate segregation of duties in the accounting function. However, because of lack of personnel, this situation is not unusual in small governmental units.

The above comment is submitted to you to develop good accounting practices and is not intended to reflect upon the performance of any Library employee.

Cutting & Cutting, P.C.